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FISCAL IMPACT STATEMENT

LS 7107
BILL NUMBER: HB 1765

NOTE PREPARED: Jan 4, 2003
BILL AMENDED:

SUBJECT: State Spending Cap.

FIRST AUTHOR: Rep. Espich
FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: **X** **GENERAL**
X **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides a control on state expenditures based on the change in gross Indiana nonfarm personal income as reported by the United States Department of Commerce, Bureau of Economic Analysis. It requires the Budget Agency to determine and publish each even-numbered year the Indiana nonfarm personal income growth index (the IPI growth index) in the Indiana Register. The bill provides for emergency expenditures. The bill also provides for mandatory reductions in expenditures. It also repeals business cycle spending controls replaced by the spending cap established by this act.

Effective Date: Upon passage.

Explanation of State Expenditures: *Expenditure Limits:* This bill establishes a maximum annual percentage change for state government expenditures to be based on Indiana nonfarm personal income (IPI) beginning in FY 2006. The bill limits expenditure increases to 3.5% annually for FY 2004 and FY 2005. P.L. 192-2002ss established similar limits, which are repealed in this bill, with the exception that beginning in FY 2006 the expenditure limit was the lesser of the six-year average of IPI or 6%.

The spending cap for FY 2004 is approximately $10,919.6 M (($10,793.3 M in FY 2003 total appropriations - $243 M)*1.035) and the FY 2005 spending cap is approximately $11,301.7 ($10,919.6*1.035). The spending cap for FY 2006 and later depend on the growth in Indiana nonfarm personal income from the base year of FY 2005 and actual expenditures. The average growth rate in IPI over the last six calendar years (1997 - 2002) was 4.8%.

The bill allows an increase in the spending cap if spending responsibility has shifted from one level of government to the state, spending responsibility has shifted from a fund not limited by the spending cap, or the state has expanded service and spending and a tax increase is dedicated to the services. The General Assembly also may authorize spending that exceeds the expenditure limit if a bill is adopted by a 2/3 majority of the members of both the House and Senate.

This bill applies to appropriations beginning in FY 2004. According to the July 11, 2002, *Reserve Statement*, FY 2003 budgeted appropriations are $10,793.3 M and net expenditures are estimated to be $10,447.1 M. The December 2002 revenue forecast projects an 8.2% increase in General Fund and Property Tax Replacement Fund revenue for FY 2004 due to increased gaming and sales taxes, and a 4.7% increase for FY 2005. The projected percentage increase in revenue adjusted for the tax increases passed by the 2002 legislature is 3% for FY 2004 and 4.5% for FY 2005. There is no official forecast of revenue collections for FY 2006 and beyond.

The impact on state spending and the amount of revenue which would be available for refund is subject to legislative, executive, and judicial actions.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: *Expenditure Limits:* Distributions of state revenue to local units of government are dependent on the disposition of state appropriations.

State Agencies Affected: Attorney General's Office, State Budget Agency, General Assembly, Treasurer of State.

Local Agencies Affected: All.

Information Sources: *GF & PTRF Statement of Combined Estimated Unappropriated Reserve*, July 11, 2002 - State Budget Agency; December 18, 2002, *State Revenue Forecast* - Revenue Forecast Technical Committee; U.S. Census Bureau.

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